

**Oscoda County Road Commission
Mio, Michigan
Financial Report
With Supplementary Information
Year Ended December 31, 2004**

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Oscoda County Road Commission	County Oscoda
Audit Date 12/31/04	Opinion Date 1/20/05	Date Accountant Report Submitted to State: 4/6/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Robertson & Carpenter CPAs LLP			
Street Address P.O. Box 308		City Mio	State MI
Accountant Signature <i>Robertson & Carpenter LLP</i>		ZIP 48647-0308	Date 4/6/05

Oscoda County Road Commission

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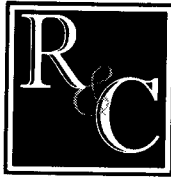
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Robert J. Carpenter, CPA
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INDEPENDENT AUDITOR'S REPORT

Board of County Road Commissioners
Oscoda County
Mio, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Oscoda County Road Commission as of and for the year ended December 31, 2004, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Oscoda County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Oscoda County Road Commission as of December 31, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Road Commission has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of January 1, 2004.

The management's discussion and analysis and budgetary comparison information on page 2 through page 8 and pages 24-25 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Robertson & Carpenter, LLP

Robertson & Carpenter LLP
Certified Public Accountants
January 20, 2005

Oscoda County Road Commission

Management's Discussion and Analysis for Fiscal Year Ended December 31, 2004

Our discussion and analysis of Oscoda County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2004. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of four parts—management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present a different view of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities—this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on the individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Commission as a Whole

Government-Wide Statements

The statement of net assets and the statement of activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The statement of net assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

Oscoda County Road Commission

**Management's Discussion and Analysis
for Fiscal Year Ended December 31, 2004**

Reporting the Commission as a Whole (Continued)

Fund Financial Statements

The Road Commission currently has only one fund, the general operations fund. All of the Road Commission's activities are accounted for in this fund. The general operations fund is a governmental fund type. Our analysis of the Road Commission's major fund begins on page 3. The fund financial statements begin on page 4 and provide detailed information about the major fund.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased approximately 95% or \$2,704,442 from \$2,842,859 to \$5,547,301 for the year ended December 31, 2004. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributions, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets, net of related debt) are considered restricted.

The restricted net assets increased by \$156,013 during the year ended December 31, 2004. The primary reason for the increase was a decrease in heavy maintenance expenditures for road projects.

The investment in capital assets, net of related debt, increased by \$2,548,429. The increase in net assets is primarily the result of the reporting of infrastructure (\$2,747,617) for the year 2004. The depreciation for the current year's infrastructure additions will be depreciated in the following year.

Oscoda County Road Commission

Management's Discussion and Analysis
for Fiscal Year Ended December 31, 2004

Financial Analysis of the Road Commission as a Whole (Continued)

Net Assets as of year ended December 31, 2004 follows:

	<u>2004</u>	<u>2003</u>	<u>Variance</u>
Current and Other Assets	\$1,975,781	\$1,865,900	\$ 109,881
Capital Assets	<u>3,765,049</u>	<u>1,216,620</u>	2,548,429
Total Assets	<u>5,740,830</u>	<u>3,082,520</u>	2,658,310
Long-Term Debt Outstanding	127,609	126,233	1,376
Other Liabilities	<u>65,920</u>	<u>113,428</u>	(47,508)
Total Liabilities	<u>193,529</u>	<u>239,661</u>	(46,132)
Net Assets			
Invested in Capital Assets			
Net of Debt	3,765,049	1,216,620	2,548,429
Restricted	<u>1,782,252</u>	<u>1,626,239</u>	156,013
Total Net Assets	<u>\$5,547,301</u>	<u>\$2,842,859</u>	\$2,704,442

Changes in Net Assets

Because this is the first year of implementation of Governmental Accounting Standards Board Statement No. 34, which requires this new reporting model, the following table presents only current year data. In future years, when prior year information is available, comparative analysis of Road Commission data will be presented.

Oscoda County Road Commission

**Management's Discussion and Analysis
for Fiscal Year Ended December 31, 2004**

Financial Analysis of the Road Commission as a Whole (Continued)

A Summary of changes in net assets for the year ended December 31, 2004 follows:

	<u>Governmental Activities</u>
Program Revenue	
License and Permits	\$ 20,427
Federal Grants	1,637,044
State Grants	2,886,946
Contributions from Local Units	331,045
Charges for Services	4,922
Investment Earning	7,392
General Revenue	
Other Revenue	729
Loss on Equipment Disposal	<u>(4,263)</u>
Total Revenue	<u>\$4,884,242</u>
Expenses	
Public Works	<u>\$2,179,800</u>
Total Expenses	<u>\$2,179,800</u>
Increase (Decrease) in Net Assets	<u>\$2,704,442</u>

The Road Commission's Fund

The Road Commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2004, the fund balance of the general operations fund increased \$157,389 as compared to an increase of \$162,099 in the fund balance for the year ended December 31, 2003. Total operating revenues were \$4,884,242, a decrease of (\$175,421) as compared to last year. This change in revenue resulted primarily from a decrease in federal funding of (\$820,487). There was an increase in the Michigan Transportation fund and Economic Development funds of \$452,588 and all other revenue netted an increase of \$192,478.

Total expenditures were \$4,726,853, a decrease of (\$170,711) as compared to last year. This change in expenditures is due primarily to a decrease in heavy maintenance of (\$601,088).

Oscoda County Road Commission

Management's Discussion and Analysis
for Fiscal Year Ended December 31, 2004

Financial Analysis of the Road Commission as a Whole (Continued)

A summary of changes in the Operating Fund is as follows:

	12/31/04 Operating Fund	12/31/03 Operating Fund	Favorable (Unfavorable) Variance	%
<u>Revenues</u>				
License and Permits	\$ 20,427	\$ 14,725	\$ 5,702	39 %
Federal Grants	1,637,044	2,457,531	(820,487)	(33) %
State Grants	2,886,946	2,434,358	452,588	19 %
Contribution from Local Units	331,045	139,816	191,229	137 %
Charges for Services	4,922	5,646	(724)	(13) %
Interest and Rents	7,392	5,249	2,143	46 %
Other Revenue	<u>(3,534)</u>	<u>2,338</u>	<u>(5,872)</u>	(251) %
Total Revenues	<u>4,884,242</u>	<u>5,059,663</u>	<u>(175,421)</u>	(3) %
<u>Expenditures</u>				
Public Works	4,926,041	5,098,341	172,300	(3) %
Net Capital Outlay	<u>(199,188)</u>	<u>(200,777)</u>	<u>(1,589)</u>	(1) %
Total Expenditures	<u>4,726,853</u>	<u>4,897,564</u>	<u>170,711</u>	(3) %
Excess of Expenditures Over (Under) Revenues	157,389	162,099	(4,710)	(3) %
<u>Other Financing Sources</u>				
Proceeds from Lease	<u>0</u>	<u>0</u>	<u>0</u>	
Total Other Financing Sources	<u>0</u>	<u>0</u>	<u>0</u>	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	157,389	162,099	(4,710)	(3) %
Fund Balance-Beginning	1,752,472	1,590,373	162,099	10 %
Fund Balance-Ending	1,909,861	1,752,472	157,389	9 %

Oscoda County Road Commission

Management's Discussion and Analysis
for Fiscal Year Ended December 31, 2004

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at the time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for the year ended December 31, 2004 was \$338,319 lower than the original budget primarily due to the Road Commission not expecting revenue from federal projects to be received by year end. The actual revenue recognized during the year ended December 31, 2004 was greater than the final amended budget by \$630,665 due to December 2004 Michigan Transportation funds not being added and also having the revenue for the federal and state projects added to the year ending 2004. (See page 24 for details)

The final amended expenditure budget for the year ended December 31, 2004 was \$434,015 lower than the original budget due primarily to project expenditures and equipment expense not being realized by year end. The actual expenditures recognized during the year ended December 31, 2004 were more than the final amended budget by \$415,746. There were unfavorable variances in maintenance expenditures and equipment expense line items. (See page 25 for details)

Capital Asset and Debt Administration

As of December 31, 2004, the Road Commission had invested \$3,765,049 in capital assets. This amount represents an increase (including additions and deductions) of \$2,548,429 or 209% as follows:

	<u>2004</u>	<u>2003</u>	<u>Total Percentage Change 2003/2004</u>
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 71,956	\$ 71,956	-0- %
Subtotal	<u>71,956</u>	<u>71,956</u>	-0- %
Capital Assets Being Depreciated			
Buildings	497,181	497,181	-0- %
Equipment	4,150,708	4,080,741	2 %
Infrastructure-Roads	<u>2,747,617</u>	<u>-0-</u>	NA
Subtotal	<u>7,395,506</u>	<u>4,577,922</u>	62 %
Total Capital Assets	<u>7,467,462</u>	<u>4,649,878</u>	61 %
Total Accumulated Depreciation	<u>(3,702,413)</u>	<u>(3,433,258)</u>	8 %
Total Net Capital Assets	<u>\$3,765,049</u>	<u>\$1,216,620</u>	209 %

Oscoda County Road Commission

**Management's Discussion and Analysis
for Fiscal Year Ended December 31, 2004**

Capital Asset and Debt Administration (Continuation)

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$2,747,617. The infrastructure recorded, during the year ended December 31, 2004 will depreciate in the following year. The infrastructure is financed through federal, state and local contributions.

This year's major capital asset additions included the following:

Infrastructure-Road	\$2,747,617
Road Equipment	93,331
Yard Equipment	13,252
Office Equipment	<u>600</u>
Total Additions	<u>\$2,854,800</u>

During the year ended December 31, 2004, the Road Commission traded in and/or disposed of equipment (road, shop, office, and engineer) with a purchase amount of \$37,216, related depreciation of \$32,076, and a net book value of \$5,140.

Debt

The Road Commission currently experiences a debt free status.

Other obligations include accrued vacation and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in Note 8 of the financial statements.

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2005 budget. One of the factors is the economy. The Road Commission derives approximately 54% of its revenue from the fuel tax collected. Using Michigan Department of Transportation projections, it is estimated that the Road Commission will receive \$153,812 less Michigan Transportation Fund revenues in the year ended December 31, 2005. The Road Commission receives revenue from townships that contribute to local road projects and that depends on what and how much the townships can afford to participate. In 2005 the township contributions are estimated at \$305,136. We do not expect any federal or state aid for road projects this year. The above items were considered when adopting the budget for the year ended December 31, 2005.

The board realizes and the reader should understand that there are not sufficient funds available to repair and/or rebuild every road in Oscoda County's transportation system; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest on the motoring public and the citizens of Oscoda County.

Contacting the Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the administrative office at 300 W. 8th Street, Mio, Michigan.

**Oscoda County Road Commission
Statement of Net Assets
December 31, 2004**

ASSETS

Cash	\$ 886,367
Accounts Receivable:	
State Department of Transportation:	
Motor Vehicle Highway Funds	376,568
Other	2,787
Due on County Road Agreements	-
Sundry	68,087
Inventories:	
Road Materials	458,638
Equipment Material and Parts	183,334
Capital Assets (Net of Accumulated Depreciation)	<u>3,765,049</u>
Total Assets	<u>5,740,830</u>

LIABILITIES

Current Liabilities	
Accounts Payable	49,465
Accrued Liabilities	16,455
Noncurrent Liabilities	
Compensated Absences - Due After One Year	<u>127,609</u>
Total Liabilities	<u>193,529</u>

Net Assets

Investment in Capital Fixed Assets	
Net of Related Debt	3,765,049
Restricted for County Road	<u>1,782,252</u>
Total Net Assets	<u>\$ 5,547,301</u>

See Accompanying Notes to Financial Statements

Oscoda County Road Commission
Statement of Activities
Year Ended December 31, 2004

Program Expenses

Primary Road Maintenance	\$ 248,371
Local Road Maintenance	2,039,253
Net Equipment Expense	(374,121)
Net Administrative Expense	264,921
Infrastructure Depreciation	-
Compensated absences	<u>1,376</u>

Total Program Expenses	<u>2,179,800</u>
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Program Revenues

Licenses and Permits	20,427
Federal Aid	1,637,044
State Aid	2,886,946
Contributions from Local Units	331,045
Charges for Services	4,922
Investment Earnings	<u>7,392</u>

Total Program Revenues	<u>4,887,776</u>
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Net Program Revenues	2,707,976
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General Revenue

Other Revenue	729
Gain (Loss) on Equipment Disposal	<u>(4,263)</u>

Total General Revenue	<u>(3,534)</u>
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Change in Net Assets	2,704,442
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Net Assets ----- January 1, 2004	<u>2,842,859</u>
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Net Assets ----- December 31, 2004	<u><u>\$ 5,547,301</u></u>
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See Accompanying Notes to Financial Statements

Oscoda County Road Commission

Balance Sheet

December 31, 2004

	Governmental Fund Type
	General Operating Fund
<u>ASSETS</u>	
Cash	\$ 886,367
Accounts Receivable:	
State Department of Transportation:	
Motor Vehicle Highway Funds	376,568
Other	2,787
Due on County Road Agreements	-
Sundry	68,087
Inventories:	
Road Materials	458,638
Equipment Material and Parts	183,334
Total Assets	\$ <u>1,975,781</u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities	
Accounts Payable	\$ 49,465
Accrued Liabilities	16,455
Total Liabilities	<u>65,920</u>
Fund Equities	
Fund Balance	
Unreserved and Undesignated	1,909,861
Total Fund Equities	<u>1,909,861</u>
Total Liabilities and Fund Equities	\$ <u>1,975,781</u>
 Total Governmental Fund Balance	 \$ 1,909,861
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Cost of capital assets is	\$ 7,467,462
Accumulated depreciation is	<u>(3,702,413)</u>
	3,765,049
Long term liabilities are not due and payable in the current period and are not reported in the fund statements.	
Compensated absences	<u>(127,609)</u>
 Net Assets of Governmental Activities	 \$ <u>5,547,301</u>

See Accompanying Notes to Financial Statements

Oscoda County Road Commission
Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended December 31, 2004

Revenues

Licenses and Permits	\$ 20,427
Federal Aid	1,637,044
State Aid	2,886,946
Contributions from Local Units	331,045
Charges for Services	4,922
Interest and Rents	7,392
Other Revenue	(3,534)
	<hr/>

Total Revenues	<hr/> 4,884,242
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Expenditures

Public Works	4,926,041
Net Capital Outlay	(199,188)
	<hr/>

Total Expenditures	<hr/> 4,726,853
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Excess of Revenues Over (Under) Expenditures	157,389
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Other Financing Sources

Proceeds From Lease Purchase Agreements	<hr/> -
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Total Other Financing Sources	<hr/> -
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Excess of Revenues and Other Financing Sources Over (Under) Expenditures	157,389
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Fund Balance ----- January 1, 2004	<hr/> 1,752,472
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Fund Balance ----- December 31, 2004	\$ <hr/> <hr/> 1,909,861
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See Accompanying Notes to Financial Statements

Oscoda County Road Commission
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of Governmental Funds to the Statement of Activities
Year Ended December 31, 2004

Net Change in Fund Balance - Total Governmental Funds	\$ 157,389
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Amounts reported for governmental activities are different because:

Government funds report capital outlays as expenditures;
in the statement of activities these costs are allocated
over their estimated useful lives as depreciation expense.

Depreciation expense	\$	(301,231)	
Capital Outlay		<u>2,854,800</u>	
			2,553,569

Increases in compensated absences are reported as expenditures when financial resources are used in the governmental funds	(1,376)
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Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities	<u>(5,140)</u>
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Change in Net Assets of Governmental Activities	\$ <u>2,704,442</u>
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See Accompanying Notes to Financial Statements

**Oscoda County Road Commission
Fiduciary Funds
Statement of Net Assets
December 31, 2004**

	Trust Fund- Pension Fund
Assets	
Investments - at fair value	\$ <u>874,468</u>
Total assets	\$ <u><u>874,468</u></u>
Liabilities	
Accounts payable	\$ <u>-</u>
Total liabilities	<u>-</u>
Net Assets - Held in Trust for Pension Benefits	\$ <u><u>874,468</u></u>

See accompanying notes to financial statements.

**Oscoda County Road Commission
Fiduciary Fund
Statement of Changes in Net Assets
December 31, 2004**

	<u>Trust Fund- Pension Fund</u>
Additions	
Contributions	
Employer	\$ 33,725
Investment earnings	<u>62,426</u>
Total Additions	96,151
 Deductions	
Administrative expenses	4,078
Benefits	<u>127,744</u>
Total deductions	<u>131,822</u>
 Net increase	(35,671)
 Net Assets Held in Trust for Pension Benefits	
Beginning of the year	<u>910,139</u>
End of the year	\$ <u><u>874,468</u></u>

See accompanying notes to financial statements.

**Oscoda County Road Commission
Notes to Financial Statements
December 31, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Oscoda County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Oscoda County Road Commission.

Effective January 1, 2004, the Road Commission implemented the provisions of GASB Statement No. 34 (GASB 34), *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. Certain significant changes in the statements include the following:

A Management Discussion and Analysis (MD & A) section providing an analysis of the Road Commission's overall financial position and results of operations has been included in the financial statements.

Financial statements prepared using the full accrual accounting for all of the Road Commission's activities, including infrastructure (roads, bridges, etc.).

A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements).

A. Reporting Entity

The Oscoda County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member elected Board of County Road Commissioners, appointed by the County Board of Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to the County Board of Commissioner's approval. The Oscoda County Road Commission has not levied any taxes.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity" for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Oscoda County Road Commission, a component unit of Oscoda County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the activities of the Oscoda County Road Commission. There is only one fund reported in the government-wide financial statements.

Oscoda County Road Commission
Notes to Financial Statements
December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government fund financial statements are reported using the current financial resources measurement focus and then modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan Transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

**Oscoda County Road Commission
Notes to Financial Statements
December 31, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets or Equity

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by the Oscoda County Road Commission as assets with an initial individual cost of \$500 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation

Depreciation is computed on the sum-of-the-year's-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	33-50 years	Office Equipment	5-10 years
Road Equipment	5-8 years	Roads	8-30 years
Shop Equipment	10 years	Bridges	12-50 years
Engineering Equipment	5-10 years		

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund Statement of Net Assets.

Compensated Absences (Vacation and Sick Leave)

The Road Commission allows its employees to accumulate vacation pay to the maximum of 120 days and accumulate 960 sick pay hours. The sick pay vests when an employee attains the age of 55 and 10 years of seniority. The potential liability for these benefits at December 31, 2004 is approximately \$127,609 and has been recorded in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

Oscoda County Road Commission
Notes to Financial Statements
December 31, 2004

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public budget hearing and adopts the budget following the public hearing. The budget is amended as necessary during the year, and is approved by the board. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

Budget Violations

Public Act 2 of 1968, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

Expenditures that exceeded appropriations are as follows:

	Final Budget	Actual	Variance
Primary Road Heavy Maintenance	\$ 1,912,000	\$ 2,121,359	\$ 209,359
Local Road Maintenance	1,013,670	1,017,084	3,414
Equipment Expense Net	(560,990)	(374,121)	186,869
Administrative Expense Net	260,410	264,921	4,511
Equipment Expense Net	(224,317)	(199,188)	25,129

NOTE 3 - CASH DEPOSITS AND INVESTMENTS

The cash and investments are classified by in the following categories:

Bank Deposits (Checking Accounts, Savings Accounts, and Certificates of Deposit)	\$ 886,267
Investments in Securities, Mutual Funds, etc.	-
Petty Cash and Cash on Hand	100
	<u>\$ 886,367</u>

Michigan Compiled Laws, Section 129.91, authorized the Road Commission to deposit and invest in the accounts of federally insured banks, credit union, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government for federal agency obligation repurchase agreements; banker's acceptance of United States Banks; commercial paper rated with the two highest classifications, which mature not more than 270 days after the purchase date; obligations of the State of Michigan or its political subdivision which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

**Oscoda County Road Commission
Notes to Financial Statements
December 31, 2004**

NOTE 3 - CASH DEPOSITS AND INVESTMENTS (Continued)

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 20 of 1943.

The deposits of the Road Commission were reflected in the accounts of one financial institution at \$886,267 of which \$100,010 is covered by federal depository insurance.

Investments

The Road Commission's investments consist of assets (guaranteed interest accounts, bonds, real estate, and stocks) for the Pension Trust Fund purchased from the Principal Mutual Life Insurance Company with a value of \$874,468 at 12/31/04. The nature of the investments does not allow for risk categorization, which is in accordance with GASB Statement No. 3.

Act 314, PA 1965, as amended by Act 31, PA 1980, and Act 55, PA 1982, authorizes the County Road Commission's Pension Trust Fund to invest in a wide variety of investments including stocks, bonds, certificates of deposit, real estate, annuity contracts, obligations of a specified nature, and real or personal property. Specific limitations apply to the various investment types.

The County Road Commission's Pension Trust Fund investments are in accordance with statutory authority.

NOTE 4 - DEFERRED COMPENSATION PLAN

The Oscoda County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plan are held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Oscoda County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with GASB Statement No. 32, plan balances and activities are not reflected in the Oscoda County Road Commission's financial statements.

NOTE 5 - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended December 31, 2004, the Federal aid received and expended by the Road Commission was \$ 1,414,538 for contracted projects and \$222,506 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT (they are included in MDOT's single audit). Negotiated contracts are projects where the road commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements if they expended \$500,000 or more for negotiated projects.

Oscoda County Road Commission
Notes to Financial Statements
December 31, 2004

NOTE 6 - CAPITAL ASSETS

Capital asset activity of the Oscoda County Road Commission for the current year was as follows:

	Beginning Balances 1/1/04	Additions	Deductions	Ending Balances 12/31/04
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 71,956	\$ -	\$ -	\$ 71,956
Capital Assets Being Depreciated				
Buildings	497,181	-	-	497,181
Equipment - Road	3,545,903	93,331	13,511	3,625,723
Equipment - Shop	117,433	-	-	117,433
Equipment - Office	34,782	600	1,666	33,716
Equipment - Engineer	70,453	-	1,500	68,953
Equipment - Yard	312,170	13,252	20,539	304,883
Infrastructure - Roads	-	2,747,617	-	2,747,617
Subtotal	<u>4,577,922</u>	<u>2,854,800</u>	<u>37,216</u>	<u>7,395,506</u>
Less Accumulated Depreciation				
Buildings	216,022	19,746	-	235,768
Equipment - Road	2,927,235	250,148	13,511	3,163,872
Equipment - Shop	72,791	7,720	-	80,511
Equipment - Office	29,859	2,059	1,666	30,252
Equipment - Engineer	35,251	5,256	1,500	39,007
Equipment - Yard	152,100	16,302	15,399	153,003
Infrastructure - Roads	-	-	-	-
Subtotal	<u>3,433,258</u>	<u>301,231</u>	<u>32,076</u>	<u>3,702,413</u>
Net Capital Assets Being Depreciated	<u>1,144,664</u>	<u>2,553,569</u>	<u>5,140</u>	<u>3,693,093</u>
Total Net Capital Assets	<u>\$ 1,216,620</u>	<u>\$ 2,553,569</u>	<u>\$ 5,140</u>	<u>\$ 3,765,049</u>

Depreciation expense was charged to the programs of the Oscoda County Road Commission as follows:

Net Equipment Expense	\$ 293,916
Net Administrative Expense	<u>7,315</u>
Total Depreciation	<u>\$ 301,231</u>

Oscoda County Road Commission
Notes to Financial Statements
December 31, 2004

NOTE 7 - EMPLOYEE RETIREMENT AND BENEFIT

The Oscoda County Road Commission provides pension benefits for all of its full time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Road Commission Plan requires the employer to contribute a specific amount per employee, per month. The contribution for each hourly employee (all are covered by a collective bargaining agreement) was \$25.00 per month for the period of January 1, 2004 - December 31, 2004. The contribution for each salaried employee is \$400.00 per month. The plan does not allow the employees to make contributions. The Road Commission's contributions for each employee (and investment earnings allocated to the employee's account) are fully vested upon the employee's entrance into the plan. The plans assets are shown at market value.

The Road Commission, on April 1, 2000, began covering the hourly employees through a defined benefit plan administered by the Steelworkers Pension Trust. The contribution rate for each employee was \$160 per month until October, 2001, when the rate became \$170 per month.

The Oscoda County Road Commission's total payroll for the year ended December 31, 2004 was \$875,251. The Road Commission's total contributions were computed on the base earnings amount of \$808,843. The Road Commission deposited the required amount of \$36,350 to the defined contribution plan and \$40,630 to the Steelworkers Pension Trust.

NOTE 8 - LONG-TERM DEBT

The Long-Term Debt of the Road Commission is composed of one item, vested vacation and sick leave.

Terms of the vested vacation and sick pay are shown in Note 1 - Compensated Absences.

	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities				
Compensated absences	\$ <u>126,233</u>	\$ <u>1,376</u>	\$ <u>127,609</u>	\$ <u>-</u>

**Oscoda County Road Commission
Notes to Financial Statements
December 31, 2004**

NOTE 9 - STATE REVENUE - ALLOCATION

The Road Commission transferred 30.0% of the primary allocation to the Local Road Fund. The transfer was an "optional" transfer in the amount of \$416,436.

NOTE 10 - POST EMPLOYMENT HEALTH CARE BENEFITS

In addition to the pension benefits described in Note 7, the Road Commission provides postretirement health care benefits for retirees who are at least 55 years of age and have 10 years of service. The Road Commission pays the premium expense covering the retiree, spouse and any dependent children up to the age of 25. Coverage is also provided for the spouses of deceased retirees. These benefits were established by Board resolution and are funded on a pay-as-you-go basis. The cost for this benefit during the year ended December 31, 2004 was \$180,526 which covered 26 retirees and spouses of deceased retirees.

Required Supplementary Information

**Oscoda County Road Commission
Required Supplementary Information
Statement of Revenues and Other Financing Sources
Budgetary Comparison Schedule
Year Ended December 31, 2004**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Licenses and Permits:				
Permits	\$ 15,000	\$ 19,900	\$ 20,427	\$ 527
Federal Aid:				
Surface Trans. Program	213,000	700,000	767,718	67,718
D Funds	-	580,000	646,820	66,820
US Forest Service	-	124,765	222,506	97,741
State Aid:				
Michigan Transportation Fund:				
Engineering	10,000	10,000	10,000	-
Primary Road	2,000,000	1,042,520	1,388,119	345,599
Local Road	1,512,188	1,000,000	1,056,548	56,548
Snow Removal	5,000	8,600	8,617	17
Economic Development:				
Rural Primary (D)	300,000	320,000	323,410	3,410
Forest Road	100,252	100,252	100,252	-
Contributions From Local Units:				
Townships	422,456	331,363	331,045	(318)
Charges For Services:				
Salvage Sales	2,000	4,690	4,018	(672)
Other Services	-	800	904	104
Interest and Rents:				
Interest Earned	10,000	6,642	7,392	750
Other Revenues:				
Sundry Refunds	-	-	729	729
Gain (Loss) on Equipment Disposals	2,000	3,520	(4,263)	(7,783)
Total Operating Revenue	<u>4,591,896</u>	<u>4,253,052</u>	<u>4,884,242</u>	<u>631,190</u>
Other Financing Sources				
Proceeds From Lease Purchase Agreements	-	525	-	(525)
Total Other Financing Sources	<u>-</u>	<u>525</u>	<u>-</u>	<u>(525)</u>
Total Revenues and Other Financing Sources	4,591,896	4,253,577	\$ <u>4,884,242</u>	\$ <u>630,665</u>
Fund Balance - January 1, 2004	<u>1,752,472</u>	<u>1,752,472</u>		
Total Budget	<u>\$ 6,344,368</u>	<u>\$ 6,006,049</u>		

**Oscoda County Road Commission
Required Supplementary Information
Statement of Expenditures
Budgetary Comparison Schedule
Year Ended December 31, 2004**

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road:				
Construction	\$ -	\$ -	\$ -	-
Heavy Maintenance	1,818,540	1,912,000	2,121,359	(209,359)
Maintenance	975,567	866,700	870,454	(3,754)
Local Road:				
Heavy Maintenance	1,004,142	1,039,434	1,022,169	17,265
Maintenance	896,493	1,013,670	1,017,084	(3,414)
Primary Road Structure:				
Heavy Maintenance	-	4,200	4,175	25
Maintenance	-	-	-	-
Local Road Structure:				
Heavy Maintenance	-	-	-	-
Maintenance	-	-	-	-
Equipment Expense - Net				
Direct			574,738	
Indirect			371,356	
Operating			121,852	
Less: Equipment Rentals			(1,442,067)	
	74,427	(560,990)	(374,121)	(186,869)
Administrative Expense - Net				
Administrative Expense			268,512	
Less: Overhead -State Trunkline			(3,591)	
	230,453	260,410	264,921	(4,511)
Capital Outlay (Net)				
Capital Outlay			107,184	
Less: Depreciation Credits			(301,232)	
Equipment Retirements			(5,140)	
	(255,500)	(224,317)	(199,188)	(25,129)
Debt Service	1,000	-	-	-
Total Expenditures	4,745,122	4,311,107	\$ 4,726,853	\$ (415,746)
Fund Balance - December 31, 2004	1,599,246	1,694,942		
Total Expenditures	\$ 6,344,368	\$ 6,006,049		

Supplementary Information

**Oscoda County Road Commission
General Operating Fund
Analysis of Changes in Available Operating Balances
Year Ended December 31, 2004**

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission Fund</u>	<u>TOTAL</u>
Total Operating Revenues	\$ 3,270,512	\$ 1,606,903	\$ 6,827	\$ 4,884,242
Total Expenditures	<u>2,835,914</u>	<u>1,913,402</u>	<u>(22,463)</u>	<u>4,726,853</u>
Excess of Revenues Over/(Under) Expenditures	<u>434,598</u>	<u>(306,499)</u>	<u>29,290</u>	<u>157,389</u>
Other Financing Sources (Uses):				
Proceeds From Lease Purchase Agreements	-	-	-	-
Optional Transfers In (Out)	(416,436)	416,436	-	-
Interfund Transfers In (Out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(416,436)</u>	<u>416,436</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources Over/(Under) Expenditures and Other (Uses)	18,162	109,937	29,290	157,389
Beginning Fund Balance - January 1, 2004	<u>1,090,990</u>	<u>400,722</u>	<u>260,760</u>	<u>1,752,472</u>
Ending Fund Balance - December 31, 2004	\$ <u><u>1,109,152</u></u>	\$ <u><u>510,659</u></u>	\$ <u><u>290,050</u></u>	\$ <u><u>1,909,861</u></u>

**Oscoda County Road Commission
General Operating Fund
Analysis of Revenues
Year Ended December 31, 2004**

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission Fund</u>	<u>Total</u>
Licenses and Permits:				
Permits	\$ 20,427	\$ -	\$ -	\$ 20,427
Federal Aid:				
Surface Trans. Program	767,718	-	-	767,718
D Funds	646,820	-	-	646,820
US Forest Service	117,500	105,006	-	222,506
State Aid:				
Michigan Transportation Fund:				
Engineering	5,600	4,400	-	10,000
Primary Road	1,388,119	-	-	1,388,119
Local Road	-	1,056,548	-	1,056,548
Snow Removal	-	8,617	-	8,617
Economic Development:				
Rural Primary (D)	323,410	-	-	323,410
Forest Road	-	100,252	-	100,252
Contributions From Local Units:				
Townships	-	331,045	-	331,045
Charges For Services:				
Salvage Sales	-	-	4,018	4,018
Other Services	-	-	904	904
Interest and Rents:				
Interest Earned	5,174	1,035	1,183	7,392
Other Revenues:				
Sundry Refunds	-	-	729	729
Gain (Loss) on Equipment Disposals	(4,256)	-	(7)	(4,263)
Total Operating Revenue	<u>3,270,512</u>	<u>1,606,903</u>	<u>6,827</u>	<u>4,884,242</u>
Other Financing Sources				
Proceeds From Lease Purchase Agreements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues and Other Financing Sources	<u>\$ 3,270,512</u>	<u>\$ 1,606,903</u>	<u>\$ 6,827</u>	<u>\$ 4,884,242</u>

**Oscoda County Road Commission
General Operating Fund
Analysis of Expenditures
Year Ended December 31, 2004**

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission Fund</u>	<u>Total</u>
Primary Road:				
Construction	\$ -	\$ -	\$ -	\$ -
Heavy Maintenance	2,121,359	-	-	2,121,359
Maintenance	870,454	-	-	870,454
Local Road:				
Heavy Maintenance	-	1,022,169	-	1,022,169
Maintenance	-	1,017,084	-	1,017,084
Primary Road Structure:				
Heavy Maintenance	4,175	-	-	4,175
Maintenance	-	-	-	-
Local Road Structure:				
Heavy Maintenance	-	-	-	-
Maintenance	-	-	-	-
Equipment Expense (Net) (Per Page 29)	(105,839)	(245,760)	(22,522)	(374,121)
Administrative Expense (Net)(Per Page 29)	157,629	107,292	-	264,921
Capital Outlay (Net) (Per Page 29)	<u>(211,864)</u>	<u>12,617</u>	<u>59</u>	<u>(199,188)</u>
Total Expenditures	\$ <u>2,835,914</u>	\$ <u>1,913,402</u>	\$ <u>(22,463)</u>	\$ <u>4,726,853</u>